

AFTON MINES LTD.

(N.P.L.)

ANNUAL REPORT 1976

The Afton plant site in January 1977, looking west. The smelter is in the left foreground. The large buildings in the back are the shop-warehouse and concentrator, with the office and metallurgical laboratory in the small buildings in front of the concentrator. Photo by W. J. Hadgkiss.



To the Shareholders:

It was a pleasure to be able to begin construction at the Afton mine site during fiscal 1976. As you know, the project involves an open pit mine and concentrator with a capacity of 7,000 tons of ore per day, as well as a smelter with a capacity of 60,000,000 pounds of blister copper per year. The combined capital cost is expected to be \$80,000,000.

Although financing was arranged and the decision to proceed was made in October 1975, it was not possible to begin actual construction until a host of permits and approvals of various government bodies had been obtained. Construction began in May 1976 after the key permits and approvals were finally received.

Despite eight weeks of shutdown during the summer because of province-wide labour disputes in the construction industry, the project is now on schedule with completion planned for late 1977.

Construction began with relocation of a 2.8 miles segment of the Trans Canada Highway at a cost of over \$1,000,000. This was finished and the new highway opened for use in October. At the same time, the Westcoast Petroleum oil pipeline and the Inland Natural Gas pipeline were relocated to pass some distance from the ultimate open pit.

Another key item of off-property construction was the installation of five miles of water pipeline from Kamloops Lake to the mine site. This 24" line has been completed and pumping stations are now being installed. The line will bring in somewhat more water than required for the concentrating and smelting operation, and the excess will be available for irrigation.

Construction on the mine property involves three large buildings, the shop-warehouse-changehouse complex, the concentrator and smelter, and a number of other structures including an office building, metallurgical laboratory and primary crusher station.

As of this report the shop-warehouse-changehouse complex and the office and metallurgical buildings are almost ready for occupancy.

Structural steel installation and cladding of the concentrator have been completed and placing of equipment foundations is now underway. The smelter steel has been erected and the first pieces of equipment have been installed, with exterior cladding now about 40% complete.

Open pit equipment has arrived on the property and is currently being assembled. Preparation of the open pit is expected to get underway in March.

By the end of the fiscal year, a total of \$17,600,000 had been spent and a further \$18,600,000 committed on equipment purchases. As of January 31, 1977 these figures stood at \$29,000,000 and \$17,600,000. Current forecasts are that the project will be completed on schedule and on budget; this will, of course, depend upon an uninterrupted construction schedule during the next eight months.

On behalf of the Board



Vancouver, B.C.
February 18, 1977

N.B. Keevil Jr.
President



C. H. Lighthall, construction superintendent; Dr. N. B. Keevil, chairman of the board; Dr. N. B. Keevil Jr., president; J. M. Anderson, mine manager and R. E. Hallbauer, managing director, on the mine site during construction.



Meteorological research, as part of Afton's environmental protection programme, includes radio-tracking of two wind balloons every day.



Three miles of the Trans-Canada Highway were relocated during the early stages of construction.



Cattle grazing on Afton's Sugarloaf Ranch, adjoining the mine site.

CONSOLIDATED BALANCE SHEET AS AT SEPTEMBER 30, 1976

ASSETS		1976	1975
		\$	\$
CURRENT ASSETS			
Cash and short-term deposits	2,210,520	2,971	
Account receivable and prepaid expenses	3,547	130	
	<u>2,214,067</u>	<u>3,101</u>	
PROPERTY, PLANT AND EQUIPMENT			
Mineral properties, land and grazing			
leases, at cost	1,235,449	937,978	
Construction in progress (note 2)	14,846,371	123	
Deferred costs	3,357,917	3,336,821	
Sugarloaf Ranch, at cost	525,710	—	
	<u>19,965,447</u>	<u>4,274,922</u>	
	<u>22,179,514</u>	<u>4,278,023</u>	

LIABILITIES		1976	1975
		\$	\$
CURRENT LIABILITIES			
Bank demand loan	—	2,270,000	
Accounts payable and accrued liabilities	1,329,830	141,649	
Current portion of mortgage loan	—	70,000	
	<u>1,329,830</u>	<u>2,481,649</u>	
LONG TERM DEBT			
6% Mortgage loan — secured by a portion of the			
company's land and repayable \$35,000			
semi-annually	—	35,000	
Bank term loan, (note 3(a))	18,562,600	—	
Teck Corporation Limited (note 3(b))	525,710	—	
	<u>20,418,140</u>	<u>2,516,649</u>	

SHAREHOLDERS' EQUITY		1976	1975
CAPITAL STOCK			
Authorized —			
5,000,000 shares without par value			
Issued and fully paid — 3,777,171	1,840,427	1,840,427	
DEFICIT	79,053	79,053	
	<u>1,761,374</u>	<u>1,761,374</u>	
	<u>22,179,514</u>	<u>4,278,023</u>	

AUDITORS' REPORT TO
THE SHAREHOLDERS

We have examined the consolidated balance sheet of Afton Mines Ltd. (N.P.L.) as at September 30, 1976 and the consolidated statement of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at September 30, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Casper & Hyland
Vancouver, B.C.
November 11, 1976 Chartered Accountants

SIGNED ON BEHALF OF THE BOARD

[Signature] Director

[Signature] Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 1976

	1976 \$	1975 \$
SOURCE OF WORKING CAPITAL		
Term bank loan	18,562,600	—
Teck Corporation Limited (note 3(b))	525,710	—
Capital stock	—	800,000
	<u>19,088,310</u>	<u>800,000</u>
USE OF WORKING CAPITAL		
Construction in progress (note 2)	14,846,248	—
Sugarloaf Ranch	525,710	—
Deferred costs	21,096	1,776,578
Mineral properties, land and grazing leases	297,471	231,678
Mortgage	35,000	70,000
	<u>15,725,525</u>	<u>2,078,256</u>
INCREASE (DECREASE) IN WORKING CAPITAL	3,362,785	(1,278,256)
WORKING CAPITAL (DEFICIENCY) — BEGINNING OF YEAR	(2,478,548)	1,200,292
WORKING CAPITAL (DEFICIENCY) — END OF YEAR	<u>884,237</u>	<u>(2,478,548)</u>
REPRESENTED BY:		
Current assets	2,214,067	3,101
Current liabilities	1,329,830	2,481,649
WORKING CAPITAL (DEFICIENCY) — END OF YEAR	<u>884,237</u>	<u>(2,478,548)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 1976

1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed by the company.

Principles of Consolidation

The consolidated financial statements include the financial statements of the wholly owned subsidiary Sugarloaf Ranches Limited.

Construction in Progress

Construction in progress represents accumulated project and financing costs to date.

Deferred Costs

Exploration, development and preproduction costs (including interest prior to commencement of construction) are deferred until the property to which they relate is placed in production. Deferred costs will be amortized over the useful life of the orebody following commencement of production.

2. CONSTRUCTION IN PROGRESS

Construction of a mine, mill and smelter complex near Kamloops, having an estimated capital cost of \$80,000,000, commenced in March 1976 with completion scheduled for late 1977. Costs incurred to date approximate \$17,500,000 with firm commitments for an additional \$18,500,000.

Teck Corporation Limited and Iso Mines Limited, substantial shareholders of the company have arranged financing for the project by way of a \$75,000,000 term loan (note 3) and a \$15,000,000 line of credit from the purchasers of the production. Teck and Iso have jointly and severally provided a completion guarantee for the project. In addition, they have agreed to provide funds, up to a maximum of \$25,000,000 for repayment of the bank loan in the event that the cash flow of the project is insufficient to meet scheduled repayments. There are provisions whereby the \$25,000,000 commitment reduces as repayments of the bank loan are made.

The \$15,000,000 line of credit from the purchasers may be drawn upon if necessary, to satisfy the completion and deficiency guarantees. To the extent that this line of credit is utilized, the obligations of Teck and Iso are reduced. The purchasers' loan, if any, will be secured by a second fixed and specific mortgage and floating charge on the assets and undertakings of the company.

In a letter dated October 17, 1975, the British Columbia Government proposed to present to the Legislature, and recommend passage, legislation which will have the effect of providing the company with a sum equivalent to two cents a pound for each pound of copper produced from the smelter for the first four years of operation. As a term of this incentive, the Government requested an option, for one year after completion of the smelter, to purchase a 5% equity interest in the smelter at a price equivalent of 5% of the cost.

3. LONG TERM DEBT

(a) Bank Term Loan

A \$75,000,000 term loan has been arranged with a consortium of Canadian banks. The loan is secured by a first fixed and floating charge over all the assets of the company and by an assignment of the sales contract and the financing agreement with the concentrate purchasers.

Funds can be borrowed in either Canadian or U.S. currency with repayment over eight years after commencement of production, subject to acceleration in the event of excess earnings as defined in the Loan Agreement. Interest rates vary but at the present time they are prime plus 2% for Canadian funds and New York prime times 130% for U.S. funds. A total of U.S. \$19,000,000 has been borrowed under this Loan Agreement.

(b) Due to Teck Corporation Limited

The advances from Teck have been used to acquire Sugarloaf Ranches Limited, are secured by the assets of Sugarloaf, and are repayable by December 31, 1985 with interest at prime plus ¾%.

4. ANTI-INFLATION ACT

The company is subject to the terms of the Anti-Inflation Act and Regulations.

5. STATUTORY INFORMATION

No remuneration was paid to the directors or senior officers during 1976.

DIRECTORS

E. P. Chapman, Jr.
A. P. Fawley
R. E. Hallbauer
D. L. Hiebert
N. B. Keevil
N. B. Keevil, Jr.
J. D. Leishman
L. G. White

OFFICERS

N. B. Keevil, Chairman of the Board
N. B. Keevil, Jr., President
R. E. Hallbauer, Managing Director
D. L. Hiebert, Vice-President and Treasurer
J. D. Munroe, Secretary
G. R. Shipley, Controller
M. Heap, Assistant Controller
N. B. Rudden, Assistant Secretary

Head Office

1199 West Hastings Street, Vancouver, B.C. V6E 2K5

Mine office

J.M. Anderson, Manager
P.O. Box 937, Kamloops, B.C. V2C 5N4

Registrar and Transfer Agent

The Canada Trust Company, Vancouver, B.C., and Toronto, Ontario

Auditors

Coopers & Lybrand, Vancouver, B.C.

Records Office

26th Floor, Pacific Centre,
700 West Georgia Street,
Vancouver, B.C.

Annual General Meeting of Shareholders

Victoria Room at the Holiday Inn, 1133 West Hastings St., Vancouver, B.C.
on March 31st, 1977, at 2:00 p.m. (Pacific Standard Time).



AFTON MINES LTD. (N.P.L.)

To the Shareholders:

Construction is proceeding well on the Afton mine, mill and smelter complex near Kamloops, B.C. The project is on budget and on schedule, despite having lost 7 weeks due to province-wide labour disputes in the construction industry last summer. Barring similar delays this year, we expect to be able to start up the facility during the last quarter of this calendar year, as planned.

In the concentrator, grinding mill foundations have been completed and mill installation is underway. The installation of flotation cells and other equipment is well-advanced and no problems are anticipated with equipment deliveries.

The building which houses the shop, warehouse and changing facilities has been completed and is now being utilized by Afton crews for the erection and maintenance of open pit mining equipment.

In the smelter building, exterior cladding, roofing and floor slab concrete work is largely complete. Several major pieces of equipment have been installed, and the TBRC vessel has been delivered to the site.

Some of the major ancillary facilities which have been completed or well-advanced during the period are the primary crusher,

office building, metallurgical laboratory, power line, water line, and relocation of the highway, gas and oil lines. The contractor's forces including sub-trades on the project reached 364 people, and permanent Afton personnel increased to 38.

A start was made in preparing the open pit for production and a contractor has removed 200,000 yards of overburden from three benches. Assembly of our own pit equipment has progressed to the point where one shovel, one drill and a fleet of trucks started waste rock removal in April. No problem is foreseen in having the pit ready for full production by the time the construction program has been completed.

To the end of March, \$45,275,804 had been spent, and a further \$9,091,848 had been committed for a total of \$54,367,652, or 68% of the expected \$80 million capital cost.

On behalf of the board

N.B. Keevil Jr.
President

Vancouver, B.C.
May 24, 1977.

AFTON MINES LTD.
(N.P.L.)

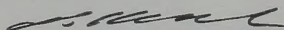
**STATEMENT OF SOURCE AND USE
OF WORKING CAPITAL**

For the Six Months Ended March 31

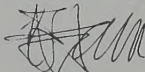
	1977 \$	1976 \$
Source		
Term bank loan	30,781,300	5,892,600
Capital stock	80,000	—
Other	29,501	—
	<u>30,890,801</u>	<u>5,892,600</u>
Use		
Construction in progress	27,749,586	2,488,788
Mineral properties	80,000	102,471
Deferred costs	29,501	21,096
Mortgage payment	—	35,000
	<u>27,859,087</u>	<u>2,647,355</u>
Increase in working capital	3,031,714	3,245,245
Working capital (deficiency)		
— beginning of period	884,237	(2,478,548)
Working capital		
— end of period	<u>3,915,951</u>	<u>766,697</u>

Subject to audit and year-end adjustments

Approved on behalf of the Board



N.B. Keevil, Jr., Director



D.L. Hiebert, Director

AFTON MINES LTD.
(N.P.L.)

INTERIM REPORT
For the six months ended
March 31, 1977

Executive Offices
1199 W. Hastings St.
Vancouver, B.C.
V6E 2K5
(604) 681-1392